

VZCZCXRO3148
PP RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHLG #0040/01 0201614
ZNR UUUUU ZZH
P 201614Z JAN 10
FM AMEMBASSY LILONGWE
TO RUEHC/SECSTATE WASHDC PRIORITY 0262
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHINGTON DC

UNCLAS SECTION 01 OF 02 LILONGWE 000040

SIPDIS

STATE FOR EEB/IFD/OMA BRIANA SAUNDERS
STATE ALSO FOR AF/EPS MARY JOHNSON AND AF/S PHAEDRA GWYNN

E.O. 12958: N/A

TAGS: [EAID](#) [ECON](#) [EFIN](#) [PREL](#) [AID](#) [MI](#)

SUBJECT: MALAWI: FISCAL TRANSPARENCY GOOD AND GETTING BETTER

REF: SECSTATE 1923

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¶1. Summary. Malawi's budget is a matter of public record and fiscal information is available through the Ministry of Finance. U.S. and other donor programs have contributed to improvements in GOM capacity, and to the quality and transparency of the budget process. Although there is still room for improvement, the GOM boasts a largely transparent fiscal system that continues to improve. End summary.

¶2. The GOM is expected to receive USG assistance under the FY10 SFOAA.

¶3. Malawi's annual budget is a matter of public record. Budget documents are made available to parliament and can be viewed at the Ministry of Finance (MoF) budget office. The Minister's budget speech is available on the MoF webpage, along with expenditure and various other reports. A budget brief was recently added. The GOM is working to address concerns over data consistency and to align the national budget with the Malawi Growth and Development Strategy (MDGS), the country's primary planning document.

¶4. In addition to presenting the budget in parliament and making the data publicly available, the MoF annually solicits public participation in the budget preparation. In the past, typically in early spring, the Finance Minister spends several days meeting with private sector representatives, civil society organizations and other members of the public. The Ministry also accepts input by mail, email or fax. Such public consultation has been a traditional practice in Malawi.

¶5. The publicly available budget includes both revenues and expenditures funded through the government accounting systems.

¶6. Donor funded projects with separate accounting systems are included in budget reports, but are listed as "off budget." USAID and other donors provide projections and then actual disbursement information on a yearly and monthly basis. The Debt and Aid division at the MOF does a good job at tracking projections and disbursements and presenting them in annual debt and aid reports and other GOM budget documents. A large majority of international donors report their budget projections and disbursements to the GOM. Exceptions include the Chinese and large foundations.

¶7. The publicly available budget figures are reasonably accurate. The Budget Brief was instituted to make the large volume of data more comprehensible. While government expenditures generally follow the published budget, actual government expenses typically vary in details. A revised budget including actual expenditures is published at the end of the fiscal year and is publicly available.

¶8. There have been no events since the previous review that could be expected to affect fiscal transparency.

¶9. Historically, the GOM has faced significant institutional capacity limitations. Capacity limits have contributed to the lack of greater transparency in Malawi's budget process.

¶10. Several aspects of Malawi's MCC Threshold Program, which concluded in 2008, directly contributed to improving GOM capacity in this area. These included interventions to:

- procure and fully deploy an Integrated Financial Management Information System (IFMIS),

- pass and implement Anti-Money Laundering and Combating Financing of Terrorism legislation that conforms to international standards, and establish an effective Financial Intelligence Unit,

- strengthen the Government of Malawi's audit capacities by recruiting, training, and equipping the staff of the National Audit Office,

- build capacity for prudent fiscal management by strengthening capabilities in the Ministry of Finance, Ministry of Economic Planning and Development, and the Malawi Revenue Authority, and

- strengthen National Assembly oversight by empowering the committee system.

¶11. DFID, GTZ, Swedish CIDA, the EU, and the World Bank have also carried out programs to help the GOM develop sound fiscal policies and support transparency and good governance.

¶12. Malawi volunteered for the IMF Report on the Observance of Standards and Codes (ROSC) covering financial transparency. The IMF released its second ROSC on financial transparency in March, 2007. The report can be accessed at:
<http://www.imf.org/external/np/rosc/rosc.asp>

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¶13. The IMF report notes that fiscal accounts are often presented to Parliament and the public with long delays. The reports are required to be submitted by the Accountant General by October 1. This target has been met since 2007, reflecting significant improvement in capacity and efficiency at the Ministry of Finance. The National Accounting Office has received training, expanded staffing, and other donor assistance to improve their capacity and provide for timely quality reporting. This was funded through MCC, Swedish CIDA and Norway.

¶14. Only the Auditor General can submit the National Audit to Parliament. A substantial back-log developed from 2006-2008 when Malawi was without an Auditor General. Since the appointment of an Auditor General in May 2008, National Audits have been completed for 2006, 2007, and 2008. Officials expect the back-log to be eliminated in 2010 and that National Audits will thereafter be completed on time.

¶15. The GOM has demonstrated a commitment to continued strengthening of its financial management systems. In consultation with key stakeholders, it has developed a Second Public Financial and Economic Management (PFEM) Action Plan, to follow up on the first that ran from 2006 to 2008. The Second PFEM Action plan was approved in May 2009 and included a list of 130 activities, with 48 identified as priorities. As of November 2009, 11 activities had been completed, 24 were underway, 11 were planned, and only 2 had received little or no action. The Action Plan includes the following activities: Planning; Resourcing the National Development Strategies; Budgeting; Budget Execution; Accounting and Financial Systems; Reporting; and PFEM Administration and Programming.

¶16. The GOM is working to address several shortcomings in the budget preparation process identified by the IMF. Public participation in budget preparation is being solicited in newspaper advertisements. Training for ministries is ongoing. A budget calendar has been prepared and distributed. Compliance is being tracked. Budget ceilings are being issued earlier (although still not in compliance with the budget calendar). The program structure is in draft format

and SOFTECH, the contractor, is restructuring Malawi's IFMIS system to align the budget with the IMF's Government Finance Statistics (GFS) standards.

¶17. Implementation of IFMIS remains incomplete. As of December 2009, IFMIS was installed and functioning in all central government offices in Lilongwe. Only the Budgeting and Accounting module is functioning, however, with other modules, including Payroll and Auditing yet to be implemented. The system does not yet generate customized reports. While a comprehensive solution has not been identified, the GOM plans to obtain training in IFMIS for user ministries particularly with regard to report generation.

¶18. Payroll, one of the critical weaknesses in fiscal data quality that the IMF highlights, continues to be an issue. The government has instituted a number of mechanisms for arrears. Utility companies have been notified that if bills are not paid in a timely fashion, the Ministry of Finance will take action. The payments will be made by the Accountant General, with the appropriate budget category charged for the payment. Other mechanisms (prepaid electrical meters) are in the process of being implemented. Most arrears have been paid or securitized.

¶19. Malawi has a substantially transparent fiscal system and has not previously required a waiver under SFOAA. While some issues remain, the GOM is committed to ongoing efforts to improve the efficiency and transparency of its system and it has made noticeable progress in the past few years. Post recommends that Malawi be deemed to meet the fiscal transparency standard and that no waiver be required.

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